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SUBJECT: AMBASSADOR MCCALLUM CALL ON INDUSTRY MINISTER CARR

¶11. (SBU) Summary: Minister for Innovation, Industry, Science and Research Kim Carr wants the Rudd government to set up a 10-year plan to address key innovation needs, which would include funding of A\$1.5 billion per year to improve research training and infrastructure and changes to the tax treatment of private sector research and development. The government "white paper" on automotive manufacturing will be WTO compliant and preserve planned tariff reductions, but will be designed to "absolutely" preserve an automotive industry in Australia. End Summary.

¶12. (SBU) In a brief but cordial courtesy call on September 4, Ambassador McCallum, DCM Dan Clune, and econoff called on Minister for Innovation, Industry, Science and Research Kim Carr. Carr, a member of the Labor Party's left faction from South Australia, is charged with overhauling Australia's science and technology efforts, and reviewing the performance and competitiveness of Australia's remaining manufacturing sectors. His Department is in the process of drafting government "White Paper" responses to both the National Innovation Systems review they received last week, and the Bracks Review of the automotive industry that was concluded in August. A third review on textiles, clothing, and footwear, is expected to be submitted to government in the next few weeks. These White Papers will lay out preferred policies to respond to the findings in each report.

¶13. (SBU) The Ambassador thanked Minister Carr for the strong cooperation U.S. agencies have received from Australian organizations, such as the Commonwealth Science and Industrial Research Organisation, under his portfolio. Noting that sustaining a culture of innovation has become a subject of great interest in Washington, the Ambassador sought Carr's views on the national innovation systems review and other government efforts to foster and sustain Australian industries.

Innovation Review

¶14. (SBU) On innovation systems, Carr said that the government would release the review's findings "shortly" but that he expected it to serve as the foundation for a ten-year government plan to completely overhaul and strengthen Australia's research and development structures. The process has been heavily influenced by the Rising Above the Gathering Storm report (chaired by former Lockheed Martin CEO Norm Augustine, who visited Australia in May) in the U.S. and its counterpart in the UK. Carr said he expected that Australia would follow similar paths, although he noted Australia would be looking to provide government funding to undertake the needed reforms, unlike the U.S. Congress. The public research sector in Australia was in need of serious help, Carr said, and the government would need to provide about A\$1.5 billion a year for ten years to improve research

training and infrastructure. He noted that the PRC was doubling R&D expenditures "every few" years and that others in the region were close to that.

Australia's R&D spending had fallen to 1.8 percent of GDP, and that was "not satisfactory" to the Rudd government. Carr also said he felt the government side was the "easy part" as there was little resistance across the Parliament to spending more on R&D.

¶ 15. (SBU) On the commercial side, he said the government would have to significantly alter the tax structure affecting commercial R&D, and replace the Howard government's multi-billion dollar Commercial Ready joint funding program with something similar but more effective. Internationally, Australia would look to step up bilateral and regional collaboration, and leverage flagship programs like the Square Kilometer Array (SKA), where Australia is one of two competitor sites. Australia would look at opening up its high-level training systems, to provide greater access and mobility to senior researchers from abroad. Such openness, Carr said, was critical to attracting and maintaining top research talent, and would not threaten Australia's competitiveness.

Carr on Cars

¶ 16. (SBU) Turning to the automotive report, Carr said that the findings indicated that U.S. manufacturers in Australia were doing better than their parents in the U.S. GM's local subsidiary Holden was doing very well in Australia, Carr said, and the government would push to expand that success.

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Holden's leadership was "top notch" and enjoyed a very good relationship with Canberra. Ford, Carr said, had serious but not fatal problems in Australia, and had not been helped by the departure of senior leaders who had been getting a handle on the challenges faced in Australia. Carr said the problems facing Australian manufacturers were "extraordinarily" similar to those faced in the U.S., and attributable to high petrol prices, lack of credit, and a lack of alternatives to what had seemed like economic winners just a few years ago. He said the model pursued by the Big Three in the U.S. had worked for forty years, but the statistics on falling sales and reduced driving miles in the U.S. were staggering. The government was working very closely with industry on these issues, Carr said, and the upcoming white paper should be seen as a "strong blueprint" for future policies. The government's response, Carr emphasized, will be WTO compliant but will absolutely preserve an automotive manufacturing industry in Australia. (Note: Despite calls by many including Steve Bracks to delay the planned reduction in auto tariffs, Prime Minister Rudd has said the tariff cuts will take place as planned.) Carr confirmed that Holden will soon begin manufacturing a hybrid vehicle in Australia, and that Toyota had done very well and would expand on its hybrid engine and manufacturing facilities in Victoria announced earlier this year.

¶ 17. (SBU) Comment: Carr seemed at ease with the policy complications of reforming both the auto industry and innovation systems. Although his approach to preserving the automotive industry in Australia smacks of European-style industrial policy, he seems committed to WTO-consistent and market-based policies. End Comment.

MCCALLUM